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SIPDIS

FROM CONSUL GENERAL TO PACOM CDR ADMIRAL KEATING

E.O. 12958: DECL: 02/12/2019
TAGS: [PREL](#) [MARR](#) [OVIP](#) [HK](#)
SUBJECT: SCENESETTER FOR FEB 17-19 VISIT OF ADMIRAL KEATING
TO HONG KONG

Classified By: Consul General Joe Donovan for reasons 1.4 (b) and (d)

¶1. (C) We warmly welcome your February 17-19 visit to Hong Kong. Despite the People's Republic of China's (PRC) sharp protest in October 2008 against U.S. arms sales to Taiwan, the PRC Ministry of Foreign Affairs has continued to approve U.S. Navy ship and aircraft requests to Hong Kong -- most recently USS Essex in November 2008 and USS Stennis Strike Group in February 2009. Additionally, PRC Ministry of National Defense (MND) approved an office call between VADM Bird (C7F) and MG ZHANG Shibo (PLA Garrison CDR Hong Kong) in November 2008. We expect your visit and the visit of the USS Stennis Strike Group, which was approved on February 10, to go smoothly.

Political Outlook

¶2. (C) Under the "one country, two systems" concept enshrined in Hong Kong's Basic Law, the HKSAR enjoys a high degree of autonomy in all matters except foreign relations and defense. The people of Hong Kong continue to enjoy the broad range of civil and social freedoms, strong legal institutions and rule of law, the free flow of information, and a highly professional civil service. The Basic Law also provides for "gradual and orderly progress" toward election of both the Chief Executive and the entire Legislative Council by universal suffrage. Eleven years into Hong Kong's reversion to China, Hong Kong people (particularly the young) increasingly identify themselves as Chinese citizens and are enthusiastically proud of China's rise, symbolized by its hosting of and performance in the Olympics. Further, the increasing economic and personal linkages between Hong Kong and mainland China mean that Hong Kongers see their future tied to China's success.

¶3. (C) Hong Kong's political development has seen its share of growing pains. The primacy of the administration in Hong Kong's "executive-led" system -- essentially the colonial administration structure under locally-selected leadership -- is increasingly challenged by the rise of politicians elected under Hong Kong's limited franchise. Though Chief Executive Donald Tsang was chosen by Beijing as a respected and popular administrator, policy missteps have left the impression his Administration both disdains broad consultation and is inept in drafting, vetting and implementing actual policy. The pro-establishment and pro-Beijing bloc that formerly guaranteed the government easy passage of legislation is increasingly willing to oppose the administration publicly for electoral advantage. Voters in turn have embraced the Legislative Council (LegCo) as their check on the policies and performance of the unelected Chief Executive and public administration. While the pan-democrats lost three seats in the September 7, 2008, legislative elections, they retain

their "blocking minority" -- numbers sufficient to deny the government the required two-thirds majority for changes to the Basic Law. As such, the government will need to address their demands in some way as it formulates democratic reforms for the 2012 LegCo and Chief Executive elections.

Economic Performance

¶4. (U) Hong Kong has been rocked, along with other financial centers, by the financial meltdown in the U.S. Hong Kong's benchmark Hang Seng Index fell by 48 percent in 2008 and trading volumes are now just one third of previous norms. Hong Kong banks' hard-earned experience during the Asian Financial Crisis meant they were relatively well positioned to deal with the immediate impact of the financial crisis in the U.S. Hong Kong banks were not significantly exposed to exotic financial products and continue to be well capitalized. However, the collapse of U.S. demand for Chinese manufactured goods has significantly affected Hong Kong's trade and logistics industries, and the financial services sector has suffered along with them. Hong Kong's exports in December fell by 11.4 percent and imports dropped 16.2 percent from the previous year. Official unemployment edged up to 4.1 percent in December, and analysts expect significant layoffs in the finance, trade and retail sectors in 2009. Hong Kong's economy shrunk in the second and third quarters of 2008; the fourth quarter was even worse. The Hong Kong government has proposed several new infrastructure development projects in an effort to create jobs and has promised increased fiscal spending in the upcoming budget, but confidence in Hong Kong's short-term economic prospects remains low.

¶5. (SBU) In 2007, Hong Kong was the third-largest container port in the world (by volume) but was expected to fall to number four in 2008, behind Shenzhen. Hong Kong and the adjacent PRC port of Shekou (Shenzhen) together account for over 25% of all containers shipped to the United States. Hong Kong air cargo shipments declined 20 percent in the fourth quarter of 2008, compared with the same period in 2007, including a drop of 28 percent in December. Container throughput at Hong Kong sea ports declined 13 percent and 24 percent year-over-year, respectively, in November and December 2008.

Export Controls and Nonproliferation

¶6. (S/NF) The SAR is a critical partner for USG counter-proliferation and transportation security programs. As befits its special status under the "one country, two systems" framework, Hong Kong continues to maintain an effective, highly autonomous, and transparent export control regime, despite its reversion to China. Our mission remains vigilant in efforts to detect possible compromises in Hong Kong's trade controls. Hong Kong was among the first in Asia to participate in the Container Security Initiative (CSI). It is now hosting a pilot project to test the congressionally mandated Secure Freight Initiative (SFI) to detect WMD or their components.

¶7. (S/NF) Hong Kong is a cooperative partner in preventing the transfer of goods through its ports that could be used by those seeking to develop missile and WMD programs (particularly the DPRK and Iran). The Hong Kong Government possesses the necessary laws and powers to prosecute and convict persons engaging in illicit activities involving proliferation or WMD production. Its government is also empowered to legally enforce UN Security Council resolutions, once they have been confirmed by Beijing and written into Hong Kong law.

¶8. (S/NF) The Hong Kong authorities over the last two years have stopped, inspected and detained North Korean merchant

ships. The Office of Liaison Administration (OLA, the Defense Attache equivalent) maintains close liaison with the Hong Kong Marine Department and Disciplined Services (Hong Kong Marine Police and others) and are able to report on the status of North Korean ships in Hong Kong in real time. The October 2006 planned arrival of the M/V Bong Hua San was significant in that it was the first known North Korean proliferator which called Hong Kong after the passage of UNSCR 1718. Cooperation between our two governments on this was significant in that Hong Kong authorities agreed to stop, board and inspect the ship, which never reached Hong Kong, however. In February 2009, Hong Kong officials declined to grant permission for U.S. Naval personnel to board an Iranian-owned Hong Kong-flagged vessel believed to be transferring U.S. controlled technology from South Africa to Iran. Hong Kong authorities explained that the specifics of this case did not appear to provide the Hong Kong government with a legal basis to authorize stopping the M/V Diplomat on the high seas. Moreover, because Hong Kong is the Flag Administrator, while the People's Republic of China is the Flag State, Hong Kong felt it had less latitude to authorize the U.S.-proposed course of action.

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